

**REPORT OF THE AUDIT OF THE
LESLIE COUNTY
SHERIFF'S SETTLEMENT - 2009 UNMINED COAL TAXES**

**For The Period
September 29, 2009 through August 17, 2010**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Jimmy Sizemore, Leslie County Judge/Executive

Honorable Paul Howard, Leslie County Sheriff

Members of the Leslie County Fiscal Court

The enclosed report prepared by Morgan-Franklin, LLC, presents the financial statement of the Leslie County Sheriff's Settlement - 2009 Unmined Coal Taxes for the period September 29, 2009 through August 17, 2010.

We engaged Morgan-Franklin, LLC to perform the audit of this financial statement. We worked closely with the firm during our report review process; Morgan-Franklin, LLC evaluated the Leslie County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LESLIE COUNTY SHERIFF'S SETTLEMENTS - 2009 UNMINED COAL TAXES

**For The Period
September 29, 2009 through August 17, 2010**

Morgan-Franklin, LLC has completed the audit of the Sheriff's Settlements - 2009 Taxes for the Leslie County Sheriff for the period September 29, 2009 through August 17, 2010. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$1,099,847 for the districts for 2009 – Unmined Coal Taxes, retaining commissions of \$45,512 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,056,652 to the districts for 2009 Unmined Coal Taxes. Taxes of \$2,317 are due to the Sheriff from the Districts.

Report Comments:

- 2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2009-02 The Sheriff Should Improve Internal Controls Over Tax Processing And Reconciliation Procedures
- 2009-03 Daily Deposits Should Be Made Intact
- 2009-04 The Sheriff Should Not Advance Commission Payments To The Fee Account
- 2009-05 The Sheriff Should Strengthen Internal Controls Over The Collection Of Add-On Fees
- 2009-06 The Sheriff Should Make Interest Payments To The School And The Fee Account In A Timely Manner

Deposits:

The Sheriff's deposits as of December 11, 2009 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$667,171

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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Independent Auditor's Report

We have audited the Leslie County Sheriff's Settlements - 2009 Taxes for the period September 29, 2009 through August 17, 2010. This tax settlement is the responsibility of the Leslie County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Leslie County Sheriff's taxes charged, credited, and paid for the period September 29, 2009 through August 17, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 27, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Jimmy Sizemore, Leslie County Judge/Executive
Honorable Paul Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties
- 2009-02 The Sheriff Should Improve Internal Controls Over Tax Processing And Reconciliation Procedures
- 2009-03 Daily Deposits Should Be Made Intact
- 2009-04 The Sheriff Should Not Advance Commission Payments To The Fee Account
- 2009-05 The Sheriff Should Strengthen Internal Controls Over The Collection Of Add-On Fees
- 2009-06 The Sheriff Should Make Interest Payments To The School And The Fee Account In A Timely Manner

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

June 27, 2011

LESLIE COUNTY
PAUL HOWARD, SHERIFF
SHERIFF'S SETTLEMENT - 2009 UNMINED COAL TAXES

For The Period September 29, 2009 Through August 17, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 166,026	\$ 321,074	\$ 531,007	\$ 179,747
Increases Through Exonerations	117	226	374	118
Unmined Coal - 2008 Taxes	678	1,227	1,899	651
Unmined Coal - 2007 Taxes	406	688	1,095	359
Penalties	219	418	688	218
Adjusted to Sheriff's Receipt	2,034	3,933	6,505	(10,298)
Gross Chargeable to Sheriff	169,480	327,566	541,568	170,795
<u>Credits</u>				
Exonerations	3,456	6,683	11,052	3,484
Discounts	2,885	5,577	9,236	2,910
Delinquents:				
Real Estate	8,597	16,626	27,497	8,668
Unmined Coal - 2008 Taxes	338	615	947	325
Unmined Coal - 2007 Taxes	105	185	283	93
Total Credits	15,381	29,686	49,015	15,480
Taxes Collected	154,099	297,880	492,553	155,315
Less: Commissions *	6,549	12,660	19,702	6,601
Taxes Due	147,550	285,220	472,851	148,714
Taxes Paid	147,897	285,645	474,044	149,066
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	\$ (347)	\$ (425)	\$ (1,193)	\$ (352)

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
SHERIFF'S SETTLEMENT - 2009 UNMINED COAL TAXES
For The Period September 29, 2009 Through August 17, 2010
(Continued)

* Commissions:

4.25% on \$ 607,294
4% on \$ 492,553

** Special Taxing Districts:

Library District	\$ (94)
Health District	(115)
Extension District	(182)
Soil Conservation District	<u>(34)</u>
 (Refunds Due Sheriff)	 <u><u>\$ (425)</u></u>

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT

August 17, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Leslie County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
August 17, 2010
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 11, 2009, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$667,171

Note 3. Tax Collection Period

Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2009. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 24, 2010 through August 17, 2010.

Note 4. Interest Income

The Leslie County Sheriff earned \$698 as interest income on 2009 taxes. As of June 24, 2011, the Sheriff owed \$279 in interest to the school district and \$419 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Leslie County Sheriff collected \$423 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Subsequent Events

Subsequent events have been evaluated through June 27, 2011, which is the date the financial statements were available to be issued.

Note 7. Sheriff's Settlement – 2009 Taxes

The Sheriff maintained one bank account for regular and unmined coal tax collections. Therefore, the Schedule of Excess of Liabilities Over Assets presented on page 7 of the Sheriff's Settlement – 2009 Taxes includes the refunds due the sheriff as presented in these financial statements.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Honorable Paul Howard, Leslie County Sheriff
Members of the Leslie County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Leslie County Sheriff's Settlements - 2009 Unmined Coal Taxes for the period September 29, 2009 through August 17, 2010, and have issued our report thereon dated June 27, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Leslie County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Leslie County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Leslie County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as items 2009-01, 2009-02, 2009-03, 2009-04 and 2009-05 to be material weaknesses.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Leslie County Sheriff's Settlements - 2009 Taxes for the period September 29, 2009 through August 17, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2009-06.

The Leslie County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Leslie County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

June 27, 2011

COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period September 29, 2009 Through August 17, 2010

INTERNAL CONTROL – MATERIAL WEAKNESSES:

2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

Condition: While reviewing the Sheriff's internal control procedures, we identified a lack of adequate segregation of duties over recordkeeping, receipts and disbursements processes, and reconciliations. These control deficiencies are present because one office clerk's duties include receiving tax payments from taxpayers, entering tax payments in the computerized system, preparing the daily deposit, and preparing the daily checkout sheet. The office manager's duties include receiving tax payments from taxpayers, entering tax payments in the computerized system, preparing the daily deposit, preparing the daily checkout sheet, preparing the monthly tax reports, preparing disbursement checks, and performing the monthly bank reconciliations.

Criteria: A proper segregation of duties over accounting functions, such as receiving tax payments, preparing the daily deposit, preparing the daily checkout sheet, preparing the monthly tax reports, preparing disbursement checks, and reconciling the bank account monthly, is essential for preventing misappropriation of assets and/or inaccurate financial reporting. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

Effect: The lack of adequate segregation of duties and/or compensating controls allowed the following material weaknesses and/or noncompliances to occur and not be detected or corrected in a timely manner:

- Weak internal controls over tax processing and reconciliations resulted in discrepancies found in daily and monthly accounting records and reports
- Daily deposits do not appear to have been made intact
- Improper advance of commissions to the fee account were made
- Improper processing of exonerations
- Improper processing of franchise tax bills
- Weak internal controls over add-on-fees
- A known deficit of \$3,046 in the Sheriff's official tax account
- Interest payments not made in a timely manner

Cause: Inadequate segregation of duties and lack of compensating controls.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period September 29, 2009 Through August 17, 2010
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESSES (Continued):

2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

Recommendation: To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involving collecting tax payments from customers, entering tax payments in the computer system, preparing deposits, preparing daily checkout sheets, preparing monthly tax reports, preparing disbursements, and reconciling the bank account. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. If the Sheriff chooses to implement compensating controls, the Sheriff should document his oversight on the appropriate source document. The following are examples of other controls the Sheriff could implement:

- The Sheriff, or his designee, could periodically recount and deposit cash receipts. This could be documented by initialing the daily checkout sheet and deposit slip.
- The Sheriff, or his designee, could periodically compare batched totals, to the daily tax collection report, cash register total and to the deposit slip, resolve any discrepancies and document the review by initialing the deposit ticket.

The Sheriff, or his designee, could compare total tax collections per the monthly reports to the totals per daily collection reports, resolve any discrepancies, and document his review by initialing the reports

Sheriff's Response: We will work to place compensating controls in place.

2009-02 The Sheriff Should Improve Internal Controls Over Tax Processing And Reconciliation Procedures

Condition: While performing the audit, we identified material weaknesses related to daily tax processing and reconciliation procedures that resulted in discrepancies in the Sheriff's tax records. Triplicate receipts were used to record payments from taxpayers, issue receipts to taxpayers, and comprise daily batches. Tax payments were then manually entered into the computer system. Entry of payments may or may not have been entered in the computer system at the time payment was received, depending on workload and/or employee availability within the Sheriff's office. Deposits for each day's collections were prepared at the end of each day and deposited into the night deposit at the bank. At the end of each day, triplicate receipts were batched, the cash register was totaled out and a daily checkout sheet was prepared.

Criteria: Effective internal controls over daily and monthly tax processing should be designed to ensure accurate financial reporting and should be implemented consistently. Specifically, batches of triplicate receipts should agree to daily deposits and should be reconciled computerized records on a daily and monthly basis. Reconciliation procedures should be sufficient to verify computerized records generated accurately reflect manual records, such as triplicate receipts and daily deposits.

LESLIE COUNTY
 PAUL HOWARD, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period September 29, 2009 Through August 17, 2010
 (Continued)

INTERNAL CONTROL – MATERIAL WEAKNESSES (Continued):

2009-02 The Sheriff Should Improve Internal Controls Over Tax Processing And Reconciliation Procedures (Continued)

Effect: Ineffective controls hindered reconciliations in such a way that the auditors noted:

- The Sheriff's office paid the Sheriff's commissions to the Districts for February 2010 collections.
- The Sheriff's office paid the Library \$10,791 more than taxes due to the District for March 2010 collections.
- Of the five daily deposits viewed, none of the cash register totals agreed to the deposit report from Tax Master for that day or the amount actually deposited.
- The results of our audit noted a known deficit in the Sheriff's tax account; however, because of the internal control weaknesses previously described, auditors were unable to determine the nature or cause of the shortage.

Cause: The Sheriff did not design internal control procedures to ensure errors or misstatements would be detected in a timely manner.

Recommendation: We recommend the Sheriff design and implement internal control procedures to detect errors or misstatements in a timely manner. Such procedures should include batching triplicate receipts at the same time the daily deposit is prepared. Tax payments should then be entered in the computer system promptly so that computerized records can be reconciled to the corresponding daily batch, daily checkout sheet, and daily deposit. On a monthly basis, total collections per daily batches should be reconciled to the monthly tax reports and bank statements.

Sheriff's Response: Compensating controls were placed in effect during 2010-2011. We daily reconcile Batch reports.

2009-03 Daily Deposits Should Be Made Intact

Condition: Daily deposits do not appear to have been made intact.

Criteria: Effective internal control procedures over daily deposits require that deposits be made intact and contain all cash and checks received for payments.

Effect: While performing the audit, we identified material weaknesses related to the preparation of daily deposits that suggests deposits were not made intact. Auditors noted:

- Daily deposits were modified frequently. Of the 36 deposits viewed, auditors noted four (4) instances in which amounts recorded on deposit slips were changed.
- Of the Thirty-six (36) daily deposits viewed, thirty-one (31) contained cash. All thirty-one containing cash contained no coins and were divisible by \$5.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period September 29, 2009 Through August 17, 2010
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESSES (Continued):

2009-03 Daily Deposits Should Be Made Intact (Continued)

In consideration of the uniqueness of tax amounts due from taxpayers, it appears unlikely that deposits contained all monies received from taxpayers.

Cause: The Sheriff did not design internal control procedures to ensure deposits were made intact and agreed to daily batches, cash register totals and daily checkout sheets. In addition, the lack of adequate segregation of duties within the Sheriff's office allowed the irregularities noted above to occur.

Recommendation: We recommend the Sheriff design and implement internal control procedures to ensure daily deposits are made intact.

Sheriff's Response: We will comply.

2009-04 The Sheriff Should Not Advance Commission Payments To The Fee Account

Condition: The Sheriff advanced commission payments to the fee account.

Criteria: KRS 134.170(3) states, "Other than for investments and expenditures permitted by KRS 134.140, the Sheriff shall not apply or use any money received by him for any purpose other than that for which the money was paid or collected."

Commission amounts paid to the fee accounts should agree to commission amounts collected per monthly tax reports, exclusive of the school district. In no circumstances, should commissions be advanced to the fee account before being earned and/or collected.

Effect: During our reconciliation of commission payments to the Sheriff's fee accounts, we determined the Sheriff improperly advanced commissions to the fee account before being earned and/or collected. For instance, in January 2010 the Sheriff paid \$45,817 to his Fee accounts, however, only \$27,819 was earned as commissions on December's collections. This created an overpayment to the 2010 fee account of \$18,000. In subsequent months amounts paid to the 2010 fee account were less than commissions actually earned. In total, it appears that the Sheriff overpaid \$805 of commissions to his 2010 Fee account.

Cause: Management override of procedures and existing internal controls over disbursements of tax commissions.

Recommendation: We recommend the Sheriff strengthen internal controls over reconciliations and disbursements to ensure commissions paid to the fee account are accurate and agree to monthly reports, exclusive of the school district. In those instances where it becomes necessary to pay tax commissions to the fee account prior to the end of the month, the Sheriff should determine the amount earned at that point and not pay any amounts in excess of what has been earned. When the monthly tax collection reports are prepared and taxes remitted to the taxing districts, the Sheriff could then reconcile the amount of commissions due at the end of the month by taking the amount due for the month less amount previously paid.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period September 29, 2009 Through August 17, 2010
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESSES (Continued):

2009-04 The Sheriff Should Not Advance Commission Payments To The Fee Account (Continued)

Sheriff's Response: We will comply.

2009-05 The Sheriff Should Strengthen Internal Controls Over The Collection Of Add-On Fees

Condition: During our testing of add-on fees, we noted that some tax payments were paid at the discount, face and 5% penalty rates even though the report was printed for payments received after the 10% penalty rate should have applied. It appears that payments are being made on one day and entered into the computer on another. For instance, one payment was entered into the computer as being paid on 2/23/2010, however, the payment was actually marked as paid on 11/28/2009. Data entry errors such as this would contribute to the Tax Master tax payment report not agreeing with daily deposits. The payment for the bill would have been accepted and included in the 11/28/2009 deposit, but would not have been included on the tax payment report until 2/23/2010.

Criteria: Payments entered into the tax program should be entered on the date actually paid.

Effect: Daily tax payment reports did not agree to daily cash register totals or deposits.

Cause: The lack of internal controls within the Sheriff's office allowed the above to occur and not be detected in a timely manner.

Recommendation: We recommend the Sheriff design and implement internal control procedures to ensure collections are made for the proper amounts due.

Sheriff's Response: This occurred when tax bills were entered into tax Master. We were unaware that discounts do not apply to these payments.

STATE LAWS AND REGULATIONS

2009-06 The Sheriff Should Make Interest Payments To The School And The Fee Account In A Timely Manner

Condition: The Sheriff did not distribute interest earned on tax collections to either the school or the fee account in a timely manner.

Criteria: KRS 134.140(3)(b) requires the Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. The Sheriff should distribute the investment earnings at the same time as monthly tax collections.

LESLIE COUNTY
PAUL HOWARD, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period September 29, 2009 Through August 17, 2010
(Continued)

STATE LAWS AND REGULATIONS (Continued):

2009-06 The Sheriff Should Make Interest Payments To The School And The Fee Account In A Timely Manner (Continued)

Effect: The school and the fee account did not receive their share of income in a timely manner.

Cause: The lack of internal controls within the Sheriff's office allowed this instance of noncompliance to occur and not be detected.

Recommendation: We recommend the Sheriff implement internal controls that ensure compliance with KRS 134.140(3)(b) and (d). As such, the Sheriff should pay the amount of interest due to the school and fee account on a monthly basis.

Sheriff's Response: We will comply.

